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**NYNEX**

February 16, 1995

**Ex Parte**

William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

**RECEIVED**

**FEB 16 1995**

**FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY**

Re: CC Dkt 92-115

**DOCKET FILE COPY ORIGINAL**

Dear Mr. Caton:

Today, N. Arcuri, S. Tucker, D. Torrey, and I, representing NYNEX Corporation, and R. Schwartz, B. Esposito, and S. Tugentman representing Bell Atlantic, met with M. Peck, S. Markendorff, M. Ferrante, D. Siehl, J. Jackson, T. Reideler, M. Del Rosario, and T. Dombrowsky of the Wireless Telecommunications Bureau and J. Knapp, F. Coperich, and H. Van Tuyl of the Office of Engineering and Technology regarding the above captioned item. The attached material formed the basis of the meeting's presentation and discussion.

Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,



Attachment

cc: M. Peck  
S. Markendorff  
M. Ferrante  
D. Siehl  
T. Reideler  
M. Del Rosario  
T. Dombrowsky  
J. Jackson

J. Knapp  
F. Coperich  
H. Van Tuyl

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# Cellular Fraud

## Presentation to the Federal Communications Commission

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# Agenda

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- Cellular fraud
- Impacts
  - » Customer
  - » Financial
- Steps to combat fraud
- Recommendations
  - » NYNEX initiatives
  - » FCC initiatives

# Cellular Fraud

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- Subscription fraud
- Access fraud
  - » Tumbling fraud
  - » Cloning fraud

# Fraud Impacts

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- Customers are victims
  - » Customer inconvenience
  - » Reduced functionality
- Financial losses
  - » Loss of revenue & taxes
  - » Bad debt expense
  - » Operating expense

# Customer Inconvenience

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- 41,000 customers were victimized in 1994
- Requires either a telephone number change or a PIN assignment
- Multiple billing adjustments
- Billing integrity questioned

# Reduced Utility of the Service

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- Nationwide automatic roaming at risk
  - » Restricted automatic roaming
  - » Roaming “brownouts”
- Features and services limited
  - » International direct dialing
  - » Three-way calling
  - » Call forwarding

# 1994 Financial Impacts

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- Revenue & tax loss
  - » 12% of all minutes credited
- Roamer bad debt—34% of payables
- Operating expense
  - » 50 employees & 22 temporary employees dedicated to fraud
  - » \$5.8 million



# Fraud Impacts

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- Not limited to large markets
  - » Dramatic increases in roamer fraud
  - » Albany, Orange/Poughkeepsie, Kingston, Manchester
  - » Awareness of cellular fraud limited
  - » Customers are confused

# Aggressive Steps

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- Preventative measures
  - » PIN feature for all new customers
  - » Fraud Protection Zones
  - » PIN feature for existing customers
  - » RF fingerprinting system
  - » Cellular authentication
  - » Customized roaming plans

# Aggressive Steps

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- Detection measures
  - » Call profiling system
  - » Automated Fraud Action System
  - » Real-time exchange of call detail records
  - » Extended hours of operation

# Aggressive Steps

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- Correction & Customer Care
  - » Immediate service restoration via PIN
  - » 24 hour Customer Security group
  - » Automated fraud credit system
- Fraud Management
  - » Fraud Decision Support System
  - » Legal/regulatory initiatives

# Significant Investments Made

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- Invested \$4.5 million in 1994
  - » Network features \$ 0.5 M
  - » Prevention & detection systems \$ 3.6 M
  - » Customer care enhancements 0.4 M

# Significant Investments Planned

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- Plan to invest \$ 16.8 million in 1995
  - » Network features \$ 4.7 M
  - » Prevention & detection systems \$ 10.6M
  - » Customer care enhancements \$1.5 M

# What NYNEX Is Doing

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- Legal and regulatory initiatives
  - » Provide training and technical support to law enforcement agencies
  - » Propose legislation to outlaw the manufacture, sale, possession, provision, and use of cloning devices and services
  - » Pursue civil/criminal actions against cloning product and service providers
  - » Support FCC enforcement efforts and pursue further rulemaking as needed

# FCC Initiatives

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- Aggressive enforcement of existing rules is critical
  - » Rule section 15.121
  - » Rule section 22.919



# FCC Initiatives (continued)

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- Assist FCC enforcement activities
    - » Monitor newspapers & trade journals for advertisements of cloning products & services
    - » Investigate cloning products and services for violations of FCC rules
    - » Obtain information on emerging cloning activities from law enforcement
    - » Document FCC rule violations
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# FCC Initiatives (continued)

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- Consider further rulemaking to address cloning fraud
    - » Rules to ensure that cellular scanning receivers (ESN readers) are not sold to unauthorized persons
    - » Rules requiring that cellular scanners be made “fraud-proof”
    - » Rules to prohibit manufacture, sale, and use of ESN emulation software
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